

Weekly Contributions  
Latin America Branch, ORE, CIA  
2 August 1949

B/LA considers developments in Peru (p. 3) merit particular attention this week.

CURRENT DEVELOPMENTS

NORTHERN DIVISION: No adverse effect on US interests need be anticipated from Panamanian governmental shifts (p. 2)

CENTRAL DIVISION: Little will be accomplished by the Colombian congressional session that began 20 July (p. 2). Prospects for Ecuadorian governmental stability are improved by suppression of the latest attempted coup (p. 2).

SOUTHERN DIVISION: Confirmation of "police-state" trends in Peru is not necessarily a net loss for US security interests (p. 3).

SPECIAL SUBJECTS

Communist Situation in Latin America - July 1949 . . . . .	4
The Current Situation in Cuba . . . . .	8
The Current Situation in Bolivia . . . . .	11

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Weekly Contributions, B/LA  
(CIA Working Paper)

2 August 1949

1. PANAMA: No adverse effect on US interests in the area need be anticipated because of the hospitalization of Chief of Police Remón and the elevation of Vice President Chanis to Provisional President. Neither Diaz (the former president who is ill and out of his mind) nor Remón are liked by the majority of the Panamanian people. Their withdrawal from political life, even if temporary, should therefore be helpful in reducing the bitterness which has divided and exasperated the country during recent months. A readjustment in political alignments by which oppositionists and other groups unfriendly to Diaz and Remón will be given a share in government is not unlikely. J. J. Vallarino, former Ambassador to the US; J. I. Fabrega, former presidential candidate; and Harmonio Arias, former president, may all be granted, in one form or another, a greater influence over government policy. Leftist or extreme nationalist administration is not foreseen.
2. COLOMBIA: Congress convened for its annual session on 20 July in an atmosphere discouraging any expectation of real accomplishment. The Liberal Party, possessing a majority in both the Senate (34 to 29) and the House (69 to 63), made it clear in the opening session that the days of collaboration were definitely over. In anticipation of the presidential election in 1950, the Liberal congressional majority will pursue a policy of aggressive opposition, petty or otherwise, to anything which would reflect credit on the Conservative administration or congressional minority.
3. ECUADOR: Prospects for Government's Stability Improved.  
The apparent ease with which the government handled Col. Carlos Mancheno's abortive insurrection on 26 July 1949 confirmed the weakness and disorganization of one group of the extremist elements of President Plaza's opposition, a weakness indicated by the government's previous success on 4 July in confining ten of Mancheno's followers (see B/LA Wkly, 19 Jul 49). On 26 July some 60 persons were arrested -- the majority reported to be retired army personnel, a minority liberal politicians -- without damaging repercussions, the Liberal Party repudiating these few members for resorting to such extreme measures and the army denouncing Col. Mancheno for attempting to incite the tank battalion stationed in Quito.  
Mancheno's election to the directorate of the anti-Plaza Liberal Party was considered at the time (see B/LA Wkly, 21 Jun 49) to have possibilities of trouble for the administration, in that it appeared to be a union of an avowed opposition party with the dissatisfied army elements led by Mancheno. The events of 4 July and

SECRET

Weekly Contributions, B/LA  
(CIA Working Paper)

2 August 1949

26 July, however, show this estimate to have been a shade too pessimistic; the pro-government reaction of the public, the Liberal Party, and the army to the arrest of Mancheno and his followers indicates that Plaza's opposition is by no means clearly committed to a policy of open revolt. This reaction therefore is, at least for the shorter term, favorable for Ecuadorian governmental stability.

4. PERU: Significance of "Police State" Government

US Embassy Lima, in its estimate of the effects of a Peruvian decree of 21 July, concludes that the Odria regime now has "all the essential powers of a police state". The decree is reportedly designed to complete the systematic destruction of APRA but also possibly prompted by current discontent and plotting among army officers (see B/LA Wkly, 26 Jul 49). B/LA concurs with the Embassy view as to the facts, but not necessarily as to all the implications.

This decree is a logical continuation of previous acts. It creates a large new group of punishable offenses, thus further limiting the exercise of constitutional guarantees of freedom of speech, of press, and of political assembly and labor organization. The Odria government had previously assumed legislative powers, prolonged a state of seige since October 1948, and failed to set a date for holding elections. Thus the latest decree further emphasizes the dictatorial and anti-democratic nature of the governing junta.

It is true that the manner of ruling of the Odria government -- not unlike that of many previous Peruvian governments -- prejudices the US interest in the development of democratic principles and procedures in the other American republics and in that sense is a denial of the fair promises of the Bustamante election in 1945. But in view of present Latin American political realities a "dictatorial" Peruvian government need not necessarily be -- nor is there any present evidence that the Odria government is -- any less favorable for US interests in Hemisphere solidarity on extra-Hemisphere issues and in economic sufficiency for internal stability and production of critical materials than would be the case with a more "democratically" organized regime.

SECRET

3.

SECRET

Weekly Contributions, B/LA  
(CIA Working Paper)  
Article 15-49

2 August 1949

Communist Situation in Latin America - July 1949Current Trends

Communism in Latin America continues in a general declining trend, which started at the end of 1947. Specific evidences of the decline are: (a) increasing reluctance on the part of Latin American governments, in the face of established US anti-USSR policy, to enter into alliances or arrangements with Communists; (b) diminished effectiveness of continued vociferous Communist propaganda (due rather to mitigation by counter-propaganda than to decreased Communist effort); (c) decline of Party membership in Cuba, Panama, and Costa Rica, and apparent decline in other countries such as Brazil and Chile (only in El Salvador may there have been a slight gain); (d) lessened support by sympathizers and diminished enthusiasm on the part of some members; (e) the occurrence of Communist Party splits and other organizational difficulties in a number of countries compared with unification in only one country (Colombia); (f) more losses than gains in control over Latin American labor organizations; (g) success of local government policies in driving underground and weakening the Communists. In addition, the financial condition of the Party continues precarious in most countries.

Legal Status

The Communist Party is illegal or nonexistent in Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Paraguay, and Peru, and there probably will be no change in Communist Party status in these countries in 1949. In Panama and Mexico, though not illegal, the Communist parties have failed to register enough votes to qualify as a political party, and there is no indication they will so qualify this year. In Argentina and Venezuela, the Communist parties are permitted to continue in existence as legal operating political parties, but are, nevertheless, kept under close surveillance by regimes which can and will outlaw them at any time it may be to the interest of the governments to do so. Only in Colombia, Cuba, Ecuador, and Uruguay, therefore, is the Communist Party in a position to enjoy freely the status of a regular legal political party. In Colombia and Cuba, however, the Communist Party's legal position has been under attack, but it is not likely to be taken away during 1949. (Consideration was given to making the Party illegal in Cuba; the President in his election campaign promised some anti-Communist action. In Colombia the PCC is under close police surveillance and has had to curtail its activities.)

SECRET

4.

SECRET

Weekly Contributions, B/LA  
(CIA Working Paper)  
Article 15-49

- 2 -

2 August 1949

Activities in 1948

Communist activity in Latin America has not been particularly fruitful for the Communists since the beginning of 1948; the plans and hopes of the leaders have led to little in the way of performance or development of those plans. The largely ineffective overt activity during the first half of 1949 consisted of propaganda, electioneering, political jockeying, labor-union and front-group promotion, parades and demonstrations. However, plans for Communist Party congresses were either abandoned or postponed; May Day parades and demonstrations were quiet and unimpressive; plans for a Latin American Peace and Democracy Congress have not materialized; organizational efforts, a major concern of Communist leaders, have not improved the Communist Party organization; a major front group -- the Unión Eslava in Argentina -- has been outlawed, and the "Defense of Petroleum Committees" and "Peace Committees" in Brazil have been unmasked as Communist fronts, while new front groups have not yet developed importance.

No considerable increase in effectiveness of Communist activity is expected during the balance of 1949. It is, however, probable that: one or two local Communist Party congresses will be held; labor-union and front-group activity will be pushed; and that rabidly anti-US propaganda will be continued, though the line may be changed to give it a more general appeal.

International Control

Several parallel lines of communication and influence appear to exist between the USSR and Latin American Communists and between Latin American Communist organizations. The communications most directly traceable to the USSR are those between diplomatic installations in Latin America -- Soviet and satellite embassies and consulates -- and Slav groups, over whom a degree of control seems to be exercised. Various pressures and threats are reported to have been used successfully by the Soviet officials to keep the local Slav leaders in line. In addition, the local Communist parties take their cues and interpretations of world events from the various "official" Russian periodicals which are publicly available, and presumably also from the Soviet radios. This they do, not because of any formal control, but because, as Communists, they consider Russia the fountain of truth and inspiration, and are unwilling to face the consequences of deviation from the Party line.

SECRET

5.

Weekly Contributions, B/LA  
(CIA Working Paper)  
Article 15-49

- 3 -

2 August 1949

It is known that CTAL collects information from affiliates in various Latin American countries, and it is reported that a central CTAL group interprets information received in the light of world conditions, and sends these interpretations along with suggestions back to CTAL affiliates. The Spanish Communists in France and Mexico apparently maintain close relations with one another and have regular couriers. Internationally organized youth, student, and other front groups also act as lines of communication and control. Various Latin American Communists have traveled to Russia and Europe, and upon return to their local parties, probably have instructions or interpretations for local use. Other Latin American Communists travel considerably within the Hemisphere organizing international meetings or possibly acting as couriers.

No Cominform, or Comintern is known to exist in Latin America. During the balance of 1949, Russian influence in Latin America is expected to emanate largely from the same mechanisms used in the past, and it is unlikely that an organization similar in intent and purpose to the Cominform will be established.

#### Soviet Interest

The worsening condition of the Latin American Communist movement is undoubtedly known to the Kremlin, and since there is no evidence of USSR action to change this condition, and some that less attention is being paid to Latin America, it may be assumed that Latin America continues in a generally low position of Soviet interest, with the probable exception of certain areas producing strategic materials.

No appreciable change in the Soviet interest in Latin America is expected during the remainder of the year.

#### Communist Objectives in Latin America

In Latin America, local Communists, isolated from direct Soviet support and operating within the power orbit of the US, cannot seize and hold political control (although they might have considerable influence upon some of the local governments). The USSR therefore pursues limited objectives in that area, its major purpose being to weaken Latin America's capacity and willingness to give aid to the US in the event of war. Specifically, preventing the present development of some of Latin America's strategic materials, particularly oil, and developing the ability to cut

~~SECRET~~

6.

Weekly Contributions, B/LA  
(CIA Working Paper)  
Article 15-49

- 4 -

2 August 1949

off US access to those materials through strikes, sabotage, or social class conflict, appear to be the continuing Communist and USSR objectives in Latin America at present.

Estimate of Current Communist Capabilities in Latin America

It is estimated that Communists could not gain political control of any Latin American country during the last half of 1949, even though, in some countries maintaining a liberal attitude toward Communists, their influence may grow. In fact, Communists or Communist sympathizers have infiltrated into some important positions in the executive branch of the Guatemalan Government, and Communists have been allowed some opportunity to develop greater influence in labor affairs in Peru and Venezuela by governments which hope in this way to weaken anti-government non-Communist unions. A combination of poor economic conditions and insecure governments exists in Bolivia, Chile, Ecuador, and Paraguay, and in that situation Communists may augment any civil disorder and violence which may occur, and use the confusion for their own ends. Communist sabotage capabilities in Latin America are largely limited to the possibilities open to trained Soviet saboteurs on specific missions to render strategic installations inoperable. In the event of approaching hostilities, physical sabotage by local Communists is of particular danger in Cuba, and it is highly probable that local Communists in any Latin American country would aid and abet trained agents. In spite of recently diminished effectiveness, propaganda probably remains the most important of current Communist capabilities in Latin America. Communists, in the absence of effective counter-propaganda, could, by using nationalist slogans, enlist enough people in some of their causes to prevent or seriously delay developments desired by the US. They could also encourage the development of suspicions and anti-US attitudes, which would make international negotiations of the US Government more difficult.

SECRET

Weekly Contributions, /IA  
(CIA Working Paper)  
Situation Memorandum 42-49

2 August 1949

The Current Situation in Cuba

(Summary: US security interests are not seriously affected by the current situation in Cuba. The administration is stable and President Prio has increased his strength in the cabinet and congress. The economic situation, though not alarming, is unfavorable. Army morale is reportedly low but is not a threat to domestic stability. There is continued government interest in Caribbean Legion activities.)

Political

The administration was strengthened in May when the Democratic Party joined the Auténtico-Republican alliance on which President Prio relied for much of his power. The new political alignment has lessened the President's dependence on the Republicans; it has decreased the influence of Vice President Pujol, a Republican whose political maneuvers have had a disruptive influence on the administration, and has made possible a reduction in the number of cabinet posts held by Republicans. The President's party (Auténticos in combination with the Democrats) now has a majority in both houses of congress without Republican support. Partly as a result of the administration's strengthened position, a government budget was approved by congress for the first time in 12 years. The new combination has not, however, cleared up all President Prio's political difficulties; he is still handicapped by uncertainty regarding the economic situation.

Economic

The economic situation is unfavorable but not alarming. Most of the 1949 sugar crop — 13.7 percent smaller than that of 1948 — has been sold or is now under contract at prices above those for 1948 but below 1947. A downward trend is under way in most lines of business; the volume of retail sales for the first three months of 1949 was 25 to 40 percent below the same period of 1948, and 1949 government revenues collected up to 21 June were approximately 19 percent below last year. Employers are now pressing for lower wages, while labor seeks to maintain or increase present wage levels. Since retail prices are about 17 percent below those of last year and since relatively high production costs are making it difficult for various Cuban industries to compete with the US and other countries, the government now seems inclined to favor moderate wage reductions.

~~SECRET~~

Weekly Contributions, B/LA  
(CIA Working Paper)  
Situation Memorandum 42-49

- 2 -

2 August 1949

The most serious current wage problem concerns the sugar industry. On 30 June wages were frozen for 90 days during which time a special commission is to study the current potentialities of the industry. Both labor and management are bitter over this delay. Management wishes a lower wage scale based on a sugar price of about 4.30 cents per pound instead of the present scale which is based on a price of 4.96 cents. It has threatened the workers with a deep cut in sugar production next year if wages are not reduced. President Prío reportedly believes that a wage reduction is now justified because of lower retail prices and the decreased sales price of sugar, but feels that such a move would not be politically expedient. Many Cubans believe that a decrease in wages throughout the industry is not justified at this time because the wages of many sugar workers are not very high, only the small sugar planters are as yet in financial trouble, and decreased consumer buying power will only accentuate the downward trend in retail sales. B/LA estimates that the present demand for Cuban sugar is sufficiently great to assure the country a relatively stable economy for the next year. Consequently, the administration will probably succeed in effecting a compromise solution of the wage-price problem that will be acceptable to capital and labor although subject to bitter attacks from the extremists on both sides.

Unemployment has become another pressing problem. Various negotiations are under way for foreign loans and investments as a device to create new jobs. A permit is about to be granted for the construction of a foreign-owned flour mill near Havana, and negotiations were held in June regarding a prospective private US loan of \$120 million. Consideration is still being given to the possibility of a loan from the International Bank. Although unemployment may not increase substantially above present figures during the next year, B/LA does not believe that private or US Government loans, if granted, will really succeed in solving the present unemployment problem. Unemployed sugar workers would, for the most part, be unsuited for the jobs on construction projects that such loans would create.

Subversive

There has been little change in Communist strength in recent months, and no substantial increase is expected in the near future. The Cuban Government continues its anti-Communist attitude.

~~SECRET~~

SECRET

Weekly Contributions, B/LA  
(CIA Working Paper)  
Situation Memorandum 42-49

- 3 -

2 August 1949

Military

Army morale is reportedly low because of opposition to Chief of Staff Genevevo Pérez, but the low morale is not believed to be a threat to domestic stability. The new military intelligence service (GRAS) — the establishment of which was decreed on 11 May (see B/LA Wkly, 31 May 49) -- has not been and may not be activated at this time. Public opposition to it continues, and the main support for the project appears to have come from General Pérez, who may be on his way out as Chief of Staff. The replacement of General Pérez might well improve Cuban Army morale and discipline. General Pérez' opposition to Cuban involvement in intra-Caribbean revolutionary maneuvers is well known. His removal may thus increase the influence of partisans of the Caribbean Legion on the Prío government.

International

Cuba's relations with the US are stable. Relations with the Dominican Republic were somewhat strained again recently as the result of the abortive invasion attempt of the Dominican Republic by the Caribbean Legion. However, the Cuban Government's contribution to the expedition, if any, was indirect. It is estimated that the government will continue its interest in the Legion, but will be sufficiently discreet in its assistance to prevent the Dominican Republic from making official charges against Cuba. In May President Prío stated that it was not contrary to Cuban policy to maintain diplomatic relations with military governments despite the fact that Cuba disapproves of them. In line with this policy, Cuba has decided to reestablish diplomatic relations with the present Venezuelan Government.

Weekly Contributions, B/LA  
(CIA Working Paper)  
Situation Memorandum 43-49

2 August 1949

The Current Situation in Bolivia

(Summary: The Bolivian Government's success in overcoming serious revolutionary labor outbreaks in late May has temporarily improved prospects for stability. The administration has sought to strengthen itself still further after this crisis by attempting to unite all democratic parties against the MNR-PIR opposition, but has been unable to do so. Serious economic dislocation has been created by a decline in the production of minerals. The Bolivian Army, having demonstrated its loyalty in the recent crisis, has increased its influence in the government. The MNR, still powerful though temporarily shaken by its failure and the controls placed upon its members by neighboring countries, continues its opposition so that further revolutionary attempts are possible within the relatively near future. Bolivia has improved its relations with Argentina and Peru, while maintaining cordial relations with its other neighbors.

US interests have been furthered by the continuance in power of a democratic government generally cooperative with US policies and objectives, by the government's refusal to accept a plan which could have further reduced Bolivian mineral production, and by the lessening in tension between Bolivia and its neighbors. These immediate favorable developments, however, have been outweighed by the decline in mineral output, which prejudices a US interest in stockpiling strategic materials and in maintaining Bolivia's production of such materials for possible future emergency.)

Political

The Bolivian Government is stronger than it was prior to 1 May because it has won greater support both from the electorate and from the army. It will need all the strength it can muster, however, to deal with the serious economic and labor problems that will come up in the congressional session scheduled to begin on 6 August.

The May day elections were a government victory both in the polling booths and on the streets: the government party won majorities in both houses of congress, and sporadic post-election riots staged by the MNR were quickly controlled. The victory was so substantial that President

Weekly Contributions, B/LA  
(CIA Working Paper)  
Situation Memorandum 43-49

- 2 -

2 August 1949

Hertzog could, without seeming to desert his post in a time of danger, take a long-deferred leave of absence and turn the executive authority over to Vice President Urriolagoitia. The latter, as acting president, was strong enough to take, with army backing and advice, the firm and drastic step on 27 May of arresting and deporting a large number of MNR and labor leaders, including Senator Juan Lechin. The army proved its loyalty by controlling the series of MNR-inspired strikes that followed, though not until rioting had cost some 100 lives including those of two US citizens. The government's ability to weather this crisis assured, for the time at least, the continuance of a democratic government generally cooperative with US policies and objectives and gave it a breathing spell in which to prepare for the next MNR assault.

The parliamentary maneuvers undertaken by the acting president, however, have not been successful. He has attempted vainly to induce the small Liberal and Social Democratic parties to join the PUSR in the government, thus uniting all democratic elements against the MNR and PIR opposition. The seemingly unrealistic intransigence of the small parties has forced the government party to depend mainly on its own strength, both in forming a cabinet and in mustering congressional support for administration policies. Judging by the record of the 1948 congress, the PUSR majority is so slight and its control over its members' voting is so weak that it may not be able to push through the government's legislative program. Unless the PUSR votes as a unit on all issues, which is extremely unlikely, it may be overwhelmed by the combined opposition of the MNR and PIR, joined on occasion by the minor democratic parties. Failure of the PUSR to put through a satisfactory legislative program to alleviate the increasing economic dislocation would increase labor unrest and the likelihood of a successful coup by the MNR --- or even by the army if it should feel it necessary to maintain or restore order.

#### Economic

Total mineral production has declined as a result of the recent strikes and falling world prices for the metals other than tin. Tin prices, however, have remained constant under a US contract and most companies, fearing price declines when the present contract expires, will probably attempt to export as much as possible during the remainder of 1949. Their effort may erase part of the effects of the May work stoppages, but tin exports are not likely to reach the 38,000 metric tons for the year which was the figure used by the government in calculating its receipts for the 1949 budget. This discrepancy, plus decline in the tax income from the reduced output of the other non-ferrous metals, will

Weekly Contributions, B/LA  
(CIA Working Paper)  
Situation Memorandum 43-19

- 3 -

2 August 1949

reduce government income so that further deficit financing will be necessary. Foreign exchange receipts have already fallen off so significantly that the issuance of exchange to cover outstanding import licenses has begun to lag for the first time in recent months. The pressure has caused the boliviano to decline further in reference to the dollar.

No decision has been made as to the best means of meeting the present economic situation. The Minister of Finance, Alexander, who advocates a state-controlled economy on the Argentine model, proposed as an immediate move the seizure by the state of the entire foreign exchange proceeds of mineral exports. At present, the mining companies retain over a third of this exchange to cover their foreign commitments. Alexander's plans were rejected by the cabinet, reflecting the mining companies' influence and the government's desire to maintain present patterns of trade. The defeat of the plan and Alexander's subsequent resignation were favorable to the US in that US-controlled mining properties were protected and Bolivia's willingness to cooperate in supplying the US with strategic materials was evidenced. If, however, the government cannot devise a plan that will minimize the effects of present economic difficulties, opponents of the government can use the demagogic appeal of portions of the Alexander plan to create further difficulties for the administration. The fact that the plan was modelled on Argentina's economic arrangements is not particularly important; what is important is its stress on nationalism and lessened Bolivian dependence on the US, although it does not, at this time, indicate clearly what markets or suppliers could take the place of those of the US.

Labor has shown no disposition to adjust its demands to the changing economic situation. All settlements of pending labor demands, however, have been postponed until after the publication of a government report on the cost of living that is scheduled for 1 September. The MNR's control of labor is so great that full political exploitation of any grievances may be expected and labor unions continue to be the best agencies for fomenting revolutionary attempts against the government. The administration's ability to control such moves appears to be greater, for the time being, and successful coups by labor groups are not expected in the near future, unless the general economic situation of the country grows worse so rapidly that the MNR can win a large measure of popular support, beyond what it has within the labor unions.

Military

The army now exerts a greater influence on the government than it did when Hertzog held office. Acting president Urriolagoitia has sought

Weekly Contributions, B/LA  
(CIA Working Paper)  
Situation Memorandum 43-49

- 4 -

2 August 1949

its political advice and support to a greater extent than did his chief. Consequently, the Army General Staff and certain political groups reportedly consider the acting president as more able in handling the situation and wish him to remain in office -- at least until the opening of congress on 6 August. President Urriolagoitia has alluded to the possibility that the army might intervene in the government unless a firm stand were taken to maintain public order. The largest single increase in the 1949 budget over last year's appropriations for individual ministries was \$2,785,714 for National Defense, bringing the amount for the maintenance of public order up to more than 25 percent of the total budget. In summary, it appears that the army, though loyal and without great political interest, is destined to play a more important role in the government than in the past. The morale of the army is generally good at this time although minor plotting by a small group of MNR and retired officers continues. Although training in the Bolivian Army is improving as a result of the influence of the US missions, it is ineffective because it is highly theoretical and formalized and is carried on in Spanish, which a large percentage of the conscripts do not fully understand. The army is slightly below strength at present.

#### Subversive

The MNR has been temporarily disorganized by the failure of the general strike, arrests and deportations of its leaders, and the Argentine move to control MNR revolutionary activities in that country. The government has not taken any strong measures against the PIR (although the PIR-controlled railroad federation joined the MNR strikes) as it considers the PIR a less serious threat than the MNR and does not wish to drive it to full collaboration with the MNR. Rumors of a pact for full cooperation between the MNR and the PIR on the labor front and in congress are unsubstantiated. Nevertheless, the two groups can be expected to join in opposition to the government on most legislative issues. Various agitators who have been released by the government have returned to the Catavi area where they are again propagandizing the explosive labor force against management. A renewed MNR revolutionary attempt, which some sources predict for August, is a further possibility, although it appears that the government will be able to control it at that time.

#### International

Bolivia's international moves, in combination with political developments in neighboring countries, have brought about an improvement in Bolivia's relations with those countries. In Peru, the removal of Lt.

Weekly Contributions, B/LA  
(CIA Working Paper)  
Situation Memorandum 43-49

- 5 -

2 August 1949

Colonel Llosa from the junta tends to improve relations with Bolivia which has had serious misgivings over his aid to MNR exiles. In Argentina, the government has acceded to Bolivian requests for more stringent control of the activities of chronically subversive Bolivian exiles by issuing decrees which provided for the expulsion from Argentine territory of eight prominent MNR members and for the scattering of remaining exiles throughout the country. Argentina's action relieves Bolivian tension which reached a height after 5 June when MNR exiles in Argentina attempted to attack a border city. Meanwhile, Bolivia's relations with its other neighbors have remained cordial so that a substantial gain for Hemisphere solidarity has been recorded by Bolivia during the past three months.

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